

ANNUAL BUDGET OF



2015/16 TO 2017/18

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Glossary

Adjustments budget – Prescribed in Section 28 of the MFMA. The formal manner in which a municipality can revise its budget during the year.

Budget – The financial plan of the Municipality.

Budget-related Policy – Policy of a municipality affecting the budget or affected by the budget, such as the tariff policy, rates policy and credit control and debt collection policy.

Capital expenditure – Expenditure on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement – A statement showing when actual cash is to be received and spent by the Municipality. Cash payments do not always correspond with budgeted expenditure frameworks. For example, when an invoice is received by the Municipality, it is regarded as expenditure in the month; even it is not paid within the same period.

DORA – Division of Revenue Act. Annual legislation containing the total allocations by national government to provincial and local governments.

Equitable share – A general allocation paid to municipalities. It is mainly aimed at

Fruitless and wasteful expenditure – Expenditure done in vain and that could have been avoided if reasonable care was exercised.

GFS – Government Finance Statistics. An internationally recognised classification system making a type by type comparison between municipalities

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Grants – Money received from Provincial or National Government and other municipalities.

GRAP – Generally Recognised Accounting Policy. The new standard for municipal accounting.

IDP – Integrated Development Plan. The main strategic planning document of the Municipality.

KPI's – Key Performance Indicators. Measurement of service outputs and/or outputs.

MFMA – The Municipal Financial Management Act – No. 53 of 2003. The main legislation applicable to municipal financial management

MTREF – Medium term Revenue and Expenditure Framework. A Medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budgetary allocations. Also includes details of the financial position of the preceding and current year.

Net Assets –Nett assets are the residual interest in the assets of the entity after all its liabilities have been deducted. This means that the net assets of the municipality equal the "net welfare" of the municipality, after all assets had been sold/ recovered and all liabilities had been paid. Transactions that do not fall under the description of Revenue or Expenditure, such as increase in the value of Property, Plant and Equipment, where no in- or outflow of resources occurs, are recorded under Nett Assets.

Operational expenditure – Expenditure on the day-to-day expenses of the Municipality, such as salaries and wages.

Property rates – Local authority rates based on the assessed value of a property. In order to calculate the rates payable, the assessed value is multiplied by the rate in the rand.

SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan consisting of quarterly performance targets and monthly budget estimates.

Strategic Objective– The main priorities of the Municipality as set out in the IDP. Budgeted expenditure must contribute to the achievement of the strategic objectives.

Unauthorised expenditure – In general, expenditure without, or in excess of an approved budget.

Virement – A budget transfer.

Vote – One of the main segments of a budget.

SCOA – Standard Chart of Accounts

Part 1 – Annual Budget

1.1 Budget-related Council Resolutions

On 25 June 2015 the Executive Mayor of Mahikeng Local Municipality tabled the 2015/16 annual budget in Council Chambers. The Council approved and adopted the following resolutions (Resolution No. 102/06/2015):

- That Council consider the 2015/16 Budget and MTREF for approval
- That the revised revenue tariffs as proposed in the draft budget and MTREF is noted and considered.
- That the fact that there were no revisions made to the following budget related policies during the current financial year is noted with the understanding that these policies would be reviewed during 2015/16 financial year:
 - Tariff policy
 - Rate policy
 - Credit control policy
 - Cash Management and Investment policy
 - Funding and Budget policy
 - Indigent Policy

Furthermore Council approved and adopted the following resolutions with respect to the implementations of second general valuation roll (Resolution No. 106/06/2015):

- That Council resolve that an application be submitted to the MEC of Local Government and Human Settlement in terms of Section 32(2) of the Municipal property Rate Act 2004 (Act No. 4 of 2004) for the extension of the General Valuation Roll 2011/2015 with another year until 30 June 2016.
- That HCB Valuers be instructed to render and conclude the service which was agreed to in terms of their existing contract and SLA until 01 July 2016.
- That Sizanane Valuers be instructed to only render and conclude the services which was agreed to in terms of their existing contract and SLA and which relate to the payments which they have received to date.
- That the MLM advertise a new tender during the July for the appointment of a new registered service provider to assist the MLM with the General Valuation Roll for the 2016/2020 financial years.

1.2 Executive Summary

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. Key areas where savings were realized was on the centralisation of the training, strict application of controls on S&T and overtime and reduce costs on hiring equipments.

The annual operating and capital budget of Mahikeng Local Municipality for the financial year 2015/16 and the two indicative years 2016/17 and 2017/18 are hereby represented as prescribed in among others:

- MFMA (Act 56 of 2003) and Budget related circulars
- The Annual Division of Revenue Bill, 2014 and Provincial Budget announcements
- Municipal Budget & Reporting Regulations 393 of 2009
- Sections 215 & 216 of the Constitution
- The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act No 44 of 2003
- Generally Recognised Accounting Practice (GRAP) Standards
- National Treasury's MFMA Circular No. 74 and 75 were used to guide the compilation of the 2015/16 MTREF.

The main challenges experienced during the compilation of the 2015/16 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- None payment of services by consumers resulting to decline in revenue;
- High dysfunctional water meters
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality.

The following budget principles and guidelines directly informed the compilation of the 2015/16 MTREF:

- The 2014/15 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2015/16 annual budget;
- The declining national and local economy when adjusting the tariffs;

The following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework (Refer to A schedule for details):

Table 1: Consolidated Overview of the 2015/16 MTREF

	Adjustments Budget 2014/15 R'000	Budget Year 2015/16 R'000	Budget Year +1 2016/17 R'000	Budget Year +2 2017/18 R'000
R thousand				
Total Operating Revenue	458 253	522 557	535 421	555 954
Total Expenditure	522 125	586 901	598 014	612 884
<i>(Deficit)/Surplus for the year</i>	(65 873)	(64 343)	(62 594)	(56 930)
Total Capital Expenditure	65 761	59 184	65 022	70 027

The above R64.3 million deficits include non-cash entries. The deficit makes has created a very marginal non cash- backed surplus.

Total operating revenue has grown by 14% percent for the 2015/16 financial year when compared to the 2014/15 Adjustments Budget. The increase is attributable to the increase on tariffs by 6%, a grant from Premiers Office for Road Maintenance. For the two outer years, operational revenue will increase by 4% and 4% respectively.

Though the total operating expenditure for the 2015/16 financial year has increased to R586.9 million, operating expenditure was reduced by 5%, the increase is mainly

attributable to the provision made of R18 million for pension deficit, depreciation due to unbundling of assets and debt impairment. When compared to the 2014/15 Adjustments Budget, operational expenditure has grown by 12% in the 2015/16 budget and by 1% percent for each of the respective outer years of the MTREF. The operating deficit took an optimistic look by decreasing for the 2016/17 and stabilise to R56.9 million for 2017/18. When isolating the non-cash items (bad debts and depreciation) there is a marginal surplus which could be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R59.1 million for 2015/16 is 10% less when compared to the 2014/15 Adjustment Budget. The capital budget is only mainly MIG projects of R59.1 million.

1.3 Operating Revenue Framework

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipal area and economic development;
- Efficient revenue management, which aims to ensure a 90 percent annual collection rate for property rates and other key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to water, sanitation and refuse ;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and tariff policies of the municipality.

Table 2: Operating revenue by source

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Property rates	97 628 210	105 664 339	127 466 000	148 359 809	127 466 000	127 466 000	127 466 000	148 010 00	155 391 707	171 079 449
Property rates - penalties & collection charges				14 596 359	13 289 660	13 289 660	13 289 660	18 028 040	19 196 262	15 828 198
Service charges - water revenue	56 611 892	69 751 594	62 763 816	115 452 000	71 525 232	71 525 232	71 525 232	74 855 746	81 347 111	84 108 798
Service charges - sanitation revenue	17 749 816	19 115 800	23 381 573	25 433 900	25 433 900	25 433 900	25 433 900	26 959 934	28 577 530	30 292 182
Service charges - refuse revenue	17 290 018	17 656 547	24 969 408	22 431 480	22 431 480	22 431 480	22 431 480	23 777 369	25 204 011	26 716 252
Service charges - other	149 000	301 662	278 895	12 533 204	3 568 921	3 568 921	3 568 921	4 228 000	4 482 220	4 310 193
Rental of facilities and equipment	3 423 144	829 204	976 119	3 739 000	1 513 472	1 513 472	1 513 472	1 604 280	1 700 537	1 802 569
Interest earned - external investments	2 460 053	2 917 571	2 633 022	2 000 000	2 000 000	2 000 000	2 000 000	2 120 000	2 247 200	2 382 032
Interest earned - outstanding debtors	29 718 851	33 604 196	35 649 216	15 756 794	28 087 072	28 087 072	28 087 072	17 599 000	18 555 634	19 774 152
Fines	2 419 237	2 678 817	14 286 566	3 421 000	599 186	599 186	599 186	635 137	673 245	714 640

Licences and permits	4 840 394	4 833 417	5 204 126	3 336 536	2 876 573	2 876 573	2 876 573	2 943 160	3 119 750	3 306 935
Transfers recognised - operational	131 364 542	136 460 956	219 425 792	153 128 000	153 128 000	153 128 000	153 128 000	197 786 200	190 406 596	192 695 512
Other revenue	2 541 025	2 466 441	11 615 366	3 092 896	1 833 405	1 833 405	1 833 405	4 011 000	4 1224 508	4 240 378
Gains on disposal of PPE	-	-	-	550 000	2 500 000	2 500 000	2 500 000	-	-	-
Total Revenue (excluding capital transfers and contributions)	366 196 182	396 280 544	528 649 899	523 830 978	456 252 901	456 252 901	456 252 901	522 557 628	535 421 310	555 478 288

1.4 Municipal own revenue

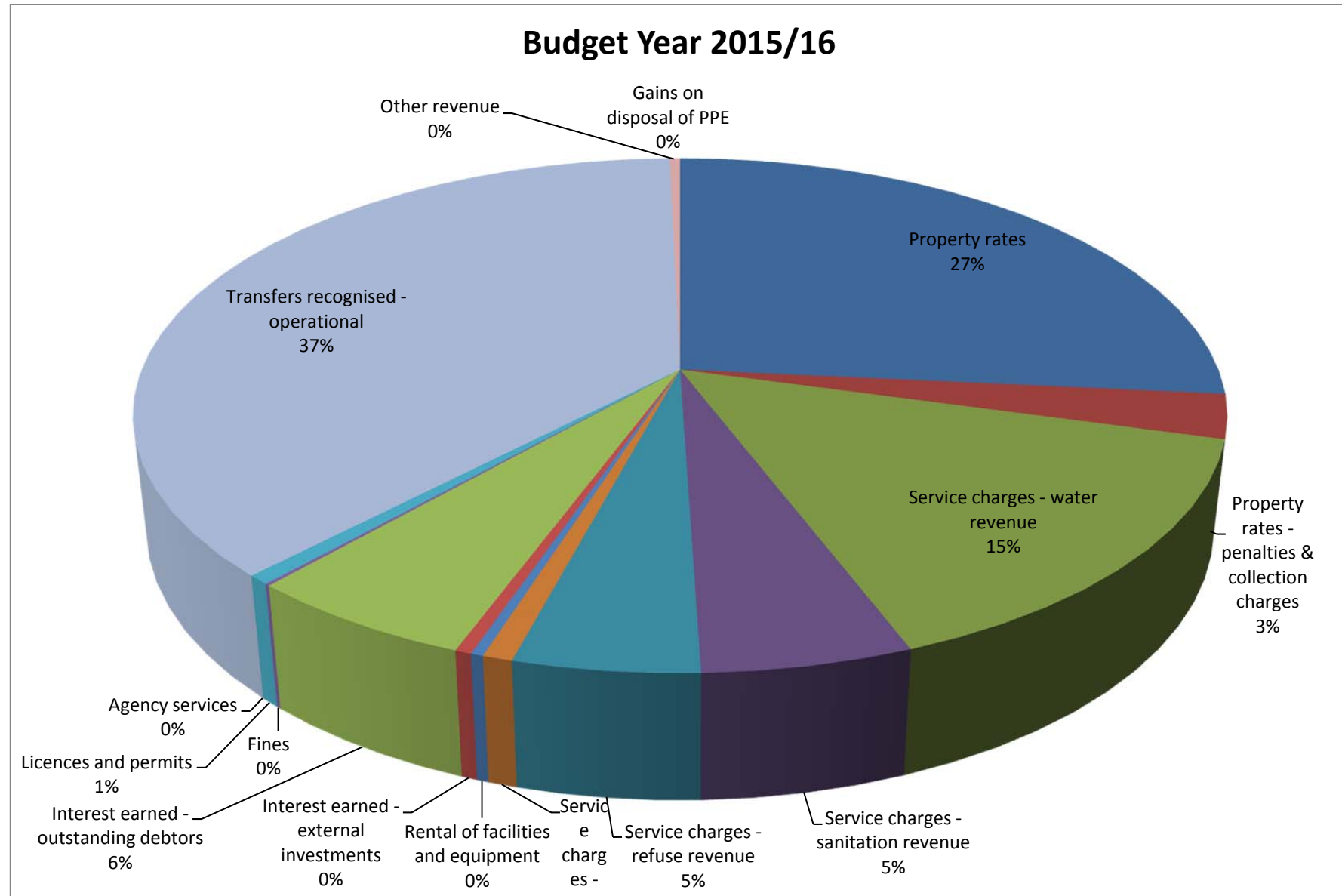
National Treasury annually issues a circular in which they prescribe to municipalities' norms and standards concerning the setting of tariffs, financial risks and other matters as budget parameters to follow when drafting the budgets. The revenue main sources of the municipality remain the same as prior year. Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account. The tariff adjustments will be widely advertised in the local newspapers. The proposed main tariff adjustments are as follows:

Table 3: Tariff adjustments

	Budget Year	Budget Year	Budget Year
Type	2014/15	2015/16	2016/17
Property rates	10%	6%	6%
Water	10%	6%	6%
Refuse removal	7%	6%	6%
Sewerage	7%	6%	6%
Other diverse charges	10%	6%	6%

Emphasis is made that the municipalities are required to justify any increase in excess of the 6 per cent. The percentage increases of the above tariffs are slightly high than the envisaged mentioned inflation targets. It must be appreciated that the input costs of water and sanitation are transferred to the municipality by Sedibeng Water Board and the municipality incur huge costs to collect revenue; unlike other municipalities there is no electricity revenue generate

Graph 1: Revenue by source



1.4.1.1 Assessment Rates

Provision for assessment rates revenue was based on the calculation of individual property. The total percentage increase for randage is 6% for all properties. The rates remain (27%) the main source of municipal own revenue at R148.0 million after considering R52 million for income forgone and rebates depending on the category of each property. Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

Table 4: Randage Table

				Current	2015/16 Medium Term Revenue & Expenditure Framework		
Description	2011/12	2012/13	2013/14	Year 2014/15	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<u>Property rates</u> (rate in the Rand)							
Residential properties	0.00500	0.005300	0.0058	0.006413	0.0068	0.0072	0.0076
Residential properties - vacant land	0.00500	0.005300	0.0058	0.006413	0.0068	0.0072	0.0076
Farm properties - used	0.00125	0.001325	0.0015	0.001604	0.0017	0.0018	0.0019
Farm properties - not used	0.00125	0.001325	0.0015	0.001604	0.0017	0.0018	0.0019
Industrial properties	0.01800	0.018972	0.0209	0.020869	0.0221	0.0234	0.0249
Business and commercial properties	0.01800	0.018972	0.0209	0.022956	0.0243	0.0258	0.0273
Communal land - residential	0.00500	0.005300	0.0058	0.006413	0.0068	0.0072	0.0076
Communal land - small holdings	0.01800	0.018972	0.0209	0.022956	0.0243	0.0258	0.0273
Communal land - farm property	0.00500	0.005270	0.0058	0.006413	0.0068	0.0072	0.0076
Communal land - business and commercial	0.01800	0.018972	0.0209	0.022956	0.0243	0.0258	0.0273
Communal land - other							

	0.01800	0.018972	0.0209	0.020869	0.0221	0.0234	0.0249
State-owned properties	0.04500	0.047025	0.0517	0.046000	0.0488	0.0517	0.0548
Municipal properties	0.04500	0.047025	0.0517	0.046000	0.0488	0.0517	0.548

1.4.1.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

The municipality is the water service provider and purchase water from Sedibeng Water Board, on monthly the average invoice from Sedibeng Water is about R6.5 million and the billing for water is around R6.2 million. The difference is as a result of water loss and non-functional meters. The municipality is aware that water tariffs are far from being cost reflective. The water tariffs have also being increased by 6%. Revenue from water sales is 15% of the total revenue of the municipality.

Table 5: Proposed Water Tariffs

DESCRIPTION			<u>Proposed</u>	<u>Proposed</u>	<u>Proposed</u>
			<u>2015/2016</u>	<u>2016/2017</u>	<u>2017/2018</u>
DOMESTIC/ASLAAGTE					
	0 - 06	Free Basic Water - Indigent Only	-	-	-
	1 - 15		6.89	7.31	7.74
Over	15.1 - 30		9.17	9.72	10.30
Over	30.1 - 45		11.47	12.16	12.89
Over	45.1 - 60		13.77	14.60	15.48
Over	60.1		16.06	17.02	18.04
INDUSTRIAL					
	0 - 300				

			11.47	12.16	12.89
Over	301 - 600		13.77	14.60	15.48
Over	601		16.06	17.02	18.04
FLATS, BUSINESS AND ALL OTHER					
	0 - 300		11.47	12.16	12.89
Over	301 - 600		13.77	14.60	15.48
Over	601		16.06	17.02	18.04
SPORTS CLUBS					
	0 - 300		6.89	7.31	7.74
Over	301 - 600		8.03	8.51	9.02
Over	601		9.18	9.73	10.31

1.4.1.3 Sanitation and Impact of Tariff Increases

Revenue from sanitation constitutes 5% of the total revenue. The input cost of sanitation is related to water. The tariffs are levied based on the erf size per square meter and 6% increase is proposed from 1 July 2015 is as seen on the **Annexure B**.

1.4.1.4 Waste Removal and Impact of Tariff Increases

A 6% increase in the waste removal tariff is proposed from 1 July 2015. Any increase higher than 6% would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt. (**Annexure B**.)

1.4.1.5 Other revenue

Other revenue which include other services charges, interest on debtors, rental, interest from investment, fines, licence and permits and other revenue were proposed to be increased by 6%.The municipality has not planned to dispose any assets during 2015/16.

1.4.1.6 Government Grants

Revenue in the form of grants and transfer constitute 37% of the total revenue, which seems that the municipality depend mainly on grants transfers and grant. The table below shows the grants

to Mahikeng Local Municipality as determined in the Annual Division of Revenue Amendment Act (DORA) for the MTEF period:

Table 6: Operating Transfers and Grant Receipts

Description	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
National Government:	190 075 200	190 307 100	192 573 350
Local Government Equitable Share	173 855 000	176 464 000	175 874 000
Finance Management	1 675 000	1 810 000	2 415 000
Municipal Systems Improvement	940 000	957 000	1 033 000
EPWP Incentive	2 646 000	-	-
Energy Efficiency and Demand Management	8 000 000	8 000 000	10 000 000
Provincial Government:	670 000	670 000	670 000
Sport and Recreation	670 000		
Premier Legacy	10 000 000	-	-
Total Operating Transfers and Grants	197 786 200	190 706 100	192 695 350

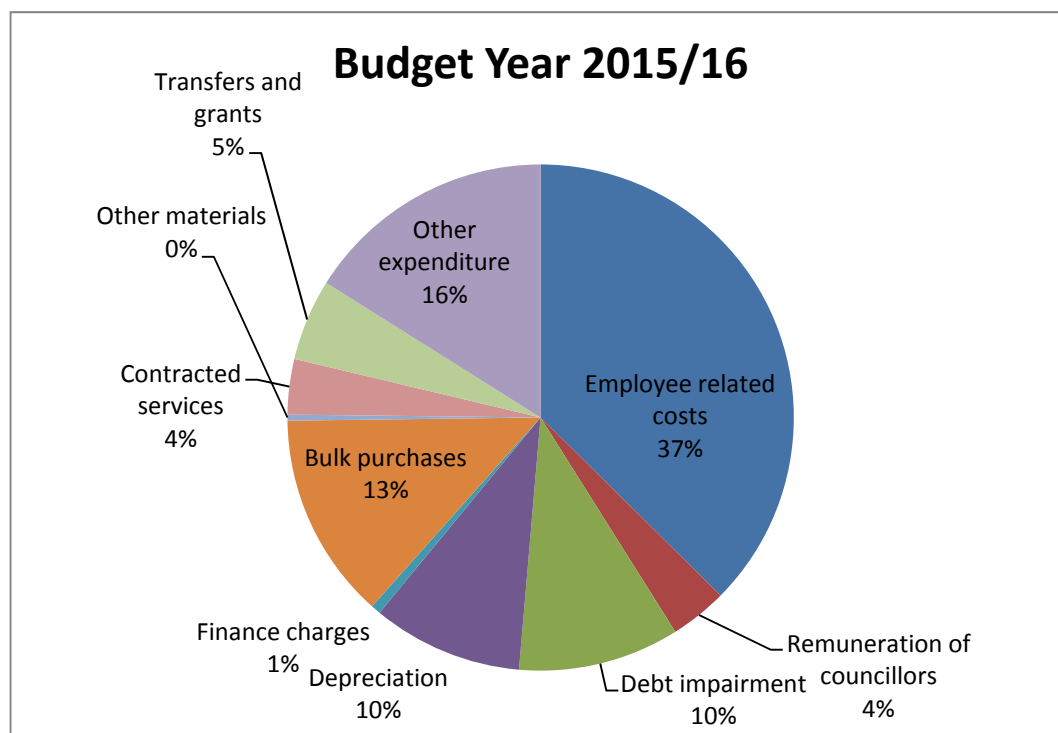
1.5 Operating Expenditure Framework

The Operating budget for 2015/16 represents an increase of 12% in relation to the 2014/15 revised budget. The following table is a high level summary of the 2015/16 budget and MTREF (classified per main type of operating expenditure):

Table 7: Summary of operating expenditure by standard classification item

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Employee related costs	168 184 292	173 184 391	191 142 863	200 656 762	194 366 070	194 366 070	194 366 070	217 400 590	226 965 116	233 952 325
Remuneration of councillors	16 792 206	18 304 390	19 249 186	21 018 000	21 018 000	21 018 000	21 018 000	22 237 044	23 526 793	24 891 347
Debt impairment	9 676 324	20 390 554	139 375 927	50 932 000	70 032 544	70 032 544	70 032 544	68 997 540	66 170 133	70 163 698
Depreciation	26 182 428	27 764 412	57 285 341	29 657 407	29 657 407	29 657 407	29 657 407	57 424 077	58 359 749	59 283 062
Finance charges	6 505 987	5 818 088	9 816 547	3 745 000	3 745 000	3 745 000	3 745 000	3 782 450	3 820 275	3 858 477
Bulk purchases	51 175 554	47 090 546	53 278 801	78 000 000	78 000 000	78 000 000	78 000 000	80 340 000	82 750 200	85 232 706
Other materials	963 391	941 931	1 249 185	8 346 226	9 967 284	9 967 284	9 967 284	2 300 000	2 346 000	2 369 460
Contracted services	6 657 126	5 002 447	17 253 838	16 019 566	23 546 686	23 546 686	23 546 686	18 254 109	18 369 991	18 481 231
Transfers and grants	-	-	-	30 383 000	30 791 984	30 791 984	30 791 984	31 294 744	31 920 058	32 240 559
Other expenditure	87 092 607	107 977 245	100 721 827	76 872 480	61 000 472	61 000 472	61 000 472	85 580 305	84 511 179	83 142 105
Total Expenditure	373 229 915	406 474 004	589 373 515	515 630 441	522 125 447	522 125 447	522 125 447	586 901 858	598 014 493	612 884 970

Graph 2: Expenditure by source



For 2015/16, the following key expenditure items were projected as follows:

- The budgeted allocation for employee related costs for the 2015/16 financial year totals R227.6 million, which equals 37% of the total operating expenditure. An employee cost increased by 11.85%, this huge increase is attributable to the current implementation of salary parity.
- Provision of 5.8% annual increase in Councillor Remuneration based on the trend noted in the prior years, while awaiting the 2014/15 Government Gazette on upper limits.
- The provision of debt impairment was determined based on an annual collection rate of 78% per cent and the Debt Write-off Policy was reviewed to that effect. For the 2015/16 financial year these amounts equates to R68.9 million; R66.1 million and R70.1 million by 2016/17 and 2017/18 respectively. The anticipation is that the collection rate will improve to 80% and 80% in 2016/17 and 2017/18 respectively. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.
- Depreciation and asset impairment has increased by 97% compared with the 2014/15 original budget; this sharp increase is informed by the current unbundling of municipal assets and in terms of the revised asset policy. Depreciation is widely considered a

proxy for the measurement of the rate asset consumption. Depreciation and asset impairment for the 2015/16 equates to 10% of the total operating expenditure.

- Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 1% (R3 785 million) of operating expenditure excluding annual redemption for 2015/16.
- Bulk purchase is directly informed by the purchase of water from Sedibeng Water Board (R80.3 million). This amount is based on the average invoiced amount of R6.69 million. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions.
- Other materials comprise of the purchase materials for maintenance,. For 2015/16 the appropriation against this group of expenditure has reduced significantly (76%). This sharp decrease is due to reclassification of items expenses which are not repair and maintenance related.
- Contracted services have been identified as a cost saving area for the municipality. As part of the compilation of the 2015/16 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2015/16 financial year, this group of expenditure totals R18 million.
- Transfers and grants relate to the cost which will be incurred to provide free basic service (water, electricity and sanitation).The municipality is reviewing the indigent register and the projected indigent households would be finalised before May 2015.
- Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. A reduction of about 5% is projected for 2015/16, 2016/17and 2017/18 respectively, in order to fund the pension deficit with R18 million per annum.

1.6 Provisions and Reserves

Provision for Landfill: The municipality has provided R54 million, which is not cash backed. The useful life landfill site is up to 2027.

1.7 Repairs and maintenance

In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. The increase in the MTREF is informed by salary adjustment. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Table 8: Operational repairs and maintenance

Repairs and Maintenance by Expenditure Item	2015/16 Medium Term Revenue & Expenditure Framework		
	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Employee related costs	13 436 280	14 027 476	14 644 685
Other materials	2 300 000	2 346 000	2 369 460
Contracted Services	2 447 000	2 331 000	2 220 000
Other Expenditure	2 450 000	2 333 000	2 222 000
Total Repairs and Maintenance Expenditure	20 633 280	21 037 476	21 56 145

1.8 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. The target is to register 10 000 or more indigent households during the 2015/16 financial year, a process reviewing the register is ongoing and planned to be finalised before the approval of the 2016/17 budget and MTREF. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table A10 (Basic Service Delivery Measurement). The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.9 Capital Budget

The capital budget has been cut to the bone. The downscaling in capital projects is part of the forced process in the recovery of Council's cash- flow problems in attaining a cash-backed and credible budget as prescribed in terms of section 18 (1) of the MFMA. Mainly the capital expenditure will be incurred on roads, high mast lights and multipurpose centres.

The capital budget of R64. 1 million for 2015/16 is 2% less when compared to the 2014/15 Adjustment budget. The capital budget is mainly MIG projects of R59.1 million and R5 million for furniture and computer equipment. A substantial portion of capital budget will be funded from MIG en each of the financial years of the MTREF.

Table 9: Capital Budget

R thousand	2014/15 Medium Term Revenue & Expenditure Framework		
	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<u>Funded by:</u>			
National Government	59 184	61 522	65 027
Provincial Government	—	—	—
District Municipality	—	—	—
Other transfers and grants	—	—	—
Transfers recognised - capital	59 184	61 522	65 027
Public contributions & donations	—	—	—
Borrowing	—	—	—
Internally generated funds	-	3 500	5 000
Total Capital Funding	59 184	65 022	70 027

1.10 Budget tables

That in terms of sections 15 to 27 of the Municipal Finance Management Act, 56 of 2003, the draft budget of the Mahikeng Local Municipality for the financial year 2015/16; and indicative allocations for the two projected outer years 2016/17 and 2017/18; and single year capital appropriations set-out in the following tables as **Annexure A:**

- 1.1. Table A1 Budget Summary.
- 1.2. Table A2 Budget Financial Performance by standard classification.
- 1.3. Table A3 Budget Financial Performance by municipal vote.
- 1.4. Table A4 Budget Financial Performance revenue and expenditure.
- 1.5. Table A5 Budgeted Capital Expenditure by Expenditure by vote standard classification.
- 1.6. Table A6 Budgeting Financial Position.
- 1.7. Table A7 Budget Cash Flow.
- 1.8. Table A8 Cash Backed Reserves/Accumulated Surplus reconciliation.
- 1.9. Table A9 Asset Management.
- 1.10. Table A10 Basic Services Delivery Measurement
- 1.11. Supporting table referred as SA1 –SA37

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

2.1.1 Budget process overview

2.1.1.1 Political overview of the budget process

Section 53 of the MFMA stipulates that the Mayor should exercise general political guidance over the budgeting process and must direct the drafting of the budget.

2.1.1.2 Schedule of Key Deadlines in respect of the budget process [MFMA section 21(1) (b)]

The Act provides that the formal budget process must commence with the tabling by the Mayor in Council of a schedule setting out the key budget deadlines. This was compiled for tabling in Council at the end of August 2014.

2.1.1.3 Process followed to integrate the revision of the IDP and drafting of the budget

The budgeting process was integrated with the IDP during the IDP revision mechanism. The outcome of the consultation upon the IDP revision is taken into consideration in the budgeting process.

2.1.1.4 Process for tabling of the budget before Council for consultation

A statutory period of consultation follows the tabling of the budget before Council on 30 March 2015. Meetings with the local community shall be commenced after tabling of the draft budget. The Executive Mayor shall consider the outcomes of these consultation meetings and a report in which the reactions are set out shall be tabled at the same meeting where the budget is to be tabled for final approval.

2.1.1.5 Process for approval of the budget

The budget must be approved by Council by 31 May 2015.

2.1.1.6 Process and media used to provide information on the budget to the community

All budget documentation, the MTREF, as well as tariffs and policies, shall be available at Council libraries and offices for perusal. It shall also be available on Council's website. Advertisements informing the public about the availability of these documents and the schedules for the public hearings on the IDP and budget shall be published in all local papers and be put up at municipal offices and libraries.

2.2 Overview of alignment of the annual budget with the Integrated Development Plan (IDP)

The Integrated Development Plan is aimed at addressing service delivery needs on a continuous basis by identifying new needs or areas of improvement. It is however also a well-known fact that the needs far exceed the available resources, and financial resources in particular. The alignment as reflected in supporting tables SA5 and SA6, of the budget with the objectives set out in the IDP is as follows:

Table 10: IDP objectives

IDP objectives	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Financial viability	44 490 060	48 610 558	45 421 743
Good Governance	173 994 677	193 111 471	177 638 365
Quality of Living Environment	286 861 749	259 724 513	292 869 029
Sustainable and Secured Environment	62 792 548	62 382 308	64 107 510
Enhancing Cultural Diversity	19671869	24970183	20083825
Economic Development and Job Creation	20 554 096	21 063 465	20 984 527

2.2.1 Measurable performance objectives and indicators

Measurable performance objectives and indicators as reflected in the annual SDBIP.

2.2.2 Overview of budget-related policies

The policies are not included in this budget documentation. It is however available for perusal at municipal offices, as well as on the website. Below is a general overview of the budget policy framework and sets out the amended policy to be approved by Council resolution.

2.2.3 Overview of budget assumptions

Budgets are drafted in uncertain conditions. In order to draft meaningful budgets, assumptions must be made about internal and external factors that may affect the budget. This Section offers a detailed summary of the assumptions used in drafting the budget.

2.2.3.1 External Factors

- Due to the current economic climate, there is no real growth in the municipal area, or in the number of households, which results in a stagnating growth factor. The number of poor households remained high in 2015/16 financial year.
- Job opportunities are limited, and the National budget has identified job creation as a priority and suggested that municipal capital and maintenance projects should assist them in this by implementing labour-intensive projects within their financial means. This is a big ask to the municipality in this current economic climate
- Price fluctuations on specific items such as telephone, petrol, diesel electricity etc.

2.2.3.2 General inflation outlook and the impact thereof on municipal activities

General inflation (CPIX) is estimated at 5.6 for the 2014/15 financial year. This naturally leads to expectations that municipal tariffs should increase by more or less the same percentage, the municipality has managed to increase tariffs in line with the CPIX.

Table 11: General inflation

Fiscal year	Budget 2015/16	Year +1 2016/17	Budget Year +2 2017/18
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CPI Inflation	4.8	5.9	5.6
Real GDP Growth	2.0	2.6	3.0

2.2.3.3 Growth or decrease in tax base of the municipality

The growth in the tax base is the main determining factor of the affordability of new infrastructure development. As part of the process of determining the real growth of municipality, a business process reengineering project will assist to evaluate the tax base growth, the results thereof will be reflected in the 2015/16 Adjustment budget.

2.2.3.4 Collection rates for each revenue source and client type

The municipality has a fair yet strict credit control policy in place and a relative above average record of debt collection; however the implementation thereof is still a challenge. Furthermore our policy on indigent support and social rebates means that many households that would normally struggle to pay their accounts receive free or subsidised basic services, which exempts them from the burden of municipal debt. Despite this, there will always be an element of non payment of accounts. Similar to any other businesses, sufficient provision must be made for bad debt based on assumptions of historical collection rates. The following assumptions were made in the MTREF for bad debt and collection rates of rates and tariffs:

Table 12: Collection rate assumptions

Fiscal year	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Provision for bad and doubtful debt	62 610	59 628	56 789
Assumption for collection rate (Service charges)	78%	80%	80%
Assumption for collection rate (Property rate)	78%	80%	80%

2.2.3.5 Average salary increases

The MTREF includes the following average percentage increases for personnel cost based on the guidance provided by National Treasury in MFMA Circular No.75.

Table 13: Percentage salary increases

Fiscal year	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Councillors	5.8%	5.8%	5.8%
Senior Managers	5.6%	5.6%	5.6%
Administrative, professional, technical, clerical staff & manual labourers	5.6%	5.6%	5.6%
Medical fund contributions	5.6%	5.6%	5.6%

2.2.3.6 Industrial relations climate, reorganisation and capacity building

The ability of the municipality to deliver quality services depends on its staff and the capacity to deliver services to the Mahikeng community at a viable and sustainable level. To achieve this, the municipality has to rely on quality, reliable and sufficient personnel. The budget make provision of R450 thousand for training.

3. Conclusion

This budget is prepared based on a mutual commitment and understanding between Council and Management that strict budget control, debt control and overall financial discipline will be maintained in order to achieve the budgeted goals as set out in this marginal budget. The Municipality's budget must be viewed in the context of the policies and financial priorities of the National, Provincial and District authorities. Basically, the government spheres are partners in fulfilling the service delivery challenges experienced in Mahikeng. It is therefore essential that the other government spheres support the municipality by direct allocation of resources and subsidies to enable the municipality to maintain and achieve the long-term capital needs of the community.

PART 3: ANNEXURES

ANNEXURE A – BUDGET SUPPORTING TABLES – A Schedule

ANNEXURE B – TARIFFS